Now the bubble has burst...

HUNTER NEWBY OF TELX LOOKS AT THE INFORMATION CARRIERS SHOULD ARM THEMSELVES WITH WHEN NEGOTIATING MEET-ME ROOM CONTRACTS.

NEXUS

Over the last several years carriers and their network construction budgets have been driven by a focus on top-line revenue growth. This massive spending created speculative telecom businesses that planned to live off of the ever-growing bubble. Now that the bubble has burst those businesses are in a sticky situation. It is now do or die time for many of these organisations as they look for revenue-generating businesses.

Take the co-location, or meet-me-room operator business model. These companies are in the business of interconnecting carrier networks together, and should not to be confused with web-hosting type co-location. How does an interconnection facility attract customers and generate revenue?

There are three components that generally apply: facility location and attributes; existing carriers installed; price and contract. These three elements, in that order, are generally how the carriers looking for space go about finding it.

The first and second components have become interlocked as good facilities have attracted more carriers which in turn made it a better location overall. The third gets negotiated. The Achilles heel in this process is the second component – existing carriers installed. What is tangible in this process is a building address, certain specifics about the facility such as HVAC, pricing and contract. What is not so tangible is verifying what carriers are actually "there" and what they may, or may not have to actually deliver service.

We've all heard the lines from co-location operators. The certain assurance "oh yes, that carrier is coming in", or "they're building out to us". The confident, "they just signed with us". Or, my personal favourite, "they have fibre in the street", as if to imply that it is close by and will be easy to connect to. It is very important when evaluating a business case to build into a co-location facility to really learn what carriers are truly "there".

So many co-location facility operators have no real idea which carriers are "there" and to what extent those carriers have capacity available to interconnect to other carriers. And this is still only half the problem. These operators also have no idea what it costs carriers to build out to a facility, or how long it can take. Such oversights are critical, as availability and choice of carrier connectivity is the foundation of a successful facility.

From the beginning of the selection process of a co-location or meet-me room facility, the prospective carrier tenant allocates a great deal of resources to making the right decision. This decision is based largely in part on information given to the carrier by the facility operator about other carriers already in the facility. If that information is inaccurate in any way, then problems may arise once the incoming carrier installs and looks to connect to other carriers that are supposedly "there".

Delays cost money. After a prospective client has done its diligence and made a decision, the push to get signed, installed and connected begins. Getting connected is how carriers generate revenue. Every carrier seeks the least amount of time from installation to revenue generation and at the lowest one-time and recurring costs possible. Time is of the essence, and money is tight today.

In order to avoid the pitfalls of inaccurate carrier network representation there are a few key terms that all prospective co-locators should be aware of.

Let's first examine the "coming in" carriers. Whenever a co-location facility operator tells you that a carrier is "coming in" you must be wary. If you need to connect to this carrier in the foreseeable future ask for more details. This usually means that someone who works the facility operator has had a conversation with the prospective carrier and that carrier has expressed an interest in coming in to the facility at some time in the future. Every possible issue can arise between now and the day they are "actually" in, not the least of which is contract negotiation and payment.

Next is the list of "signed" carriers. This too should cause your ears to prick up a bit. First define what "signed" means. Did the carrier sign a simple memorandum of understanding (MOU) that states that if and when there is a valid reason and sound business case to build in to a facility they will then sign a real contract, or did they sign a real contract that commits them to paying real money? Real contracts that are signed with committed revenue are better than MOUs, but there can still be delays.

Once a carrier "signs" a real contract there are several factors to consider such as construction of conduits, in some cases including foundation, or core drilling, fibre pulling and splicing and other time-consuming issues. All of which further delays the actual deployment of real telecom services. The time frame for installation can vary from several weeks to several months just on the layer one infrastructure, and does not include the deployment, test and turn-up of equipment necessary for lit service.

Then there is the general statement, "they have a network presence here". What kind of network presence? Once the real contract is signed and the physical installation is complete there are different degrees of actual network deployment. More and more carriers are building a minimal passive fibre presence and then growing to add equipment based on demand for lit service. As technology enables carriers to interconnect by dark fibre, the need for equipment, as in the Sonet multiplexer, becomes less of a necessity.

This is not to say though that the need to deliver electrical circuits is completely gone. Far from it actually, but dark fibre in a fibre distribution panel is a long way from equipment deployed, installed and ready to go. For the carrier who is "there," the difference is tens of thousands of dollars in capital expenditure and a signed order with enough revenue to justify those dollars to deploy the equipment. If you need to interconnect at the electrical level then you better find out beforehand if the equipment necessary is actually "there" and if it has any available capacity.

Finally, "they have fibre in the street". This is reminiscent of the story about the carrier who bought an old meat packing plant along the railroad tracks where they knew their fibre was built. It was the perfect building, unlimited floor load, lots of power, roof access and the fibre right out back. After buying the building for several million dollars and then pumping another several million in to it the carrier's real estate people handed it over to the network people to pull in the fibre and light the building. Well, the network people said, "yes, that is our fibre, but the regeneration point is seven miles away and because of the way the network is built it would be impossible to splice the fibre at this point." So, they had to buy an RBOC local loop from the regeneration point back to the building to get access to their own network. This story really brings the problems in to focus, since it was the carrier's own fibre that it lacked accurate information about. Just imagine that it is not your fibre. How much would you know about it then? Ask about the network first and save yourself a lot of time and money.

The co-location and meet-me room operators who came late to the party have missed out on three critical components of the business because of their lack of experience.

Firstly carriers want to be where carriers already are. This makes the most sense from a high-level view of time and cost savings. Even if the "perfect" building is built across the street if there are no carriers in it there is not going to be much interest.

Secondly, even if a carrier wants to be in your facility, has an order for service driving the deal and has the capital approved for the build out it can still take a long time to complete. So long that every ancillary interconnect deal that was waiting for that build is now dead, or has moved on to a facility that could actually do it. Making promises that carrier XYZ is "coming in" can really cause problems.

Thirdly, even if a carrier has an order to deliver service to someone within your facility that does not mean that they are going to build. Many times the revenue from the circuit is not enough to justify the cost of the build, especially in today's falling bandwidth price market. Carriers will turn away business that does not make financial sense for them.

The moral of the story is "don't count your carriers before they are there". If you are a co-location, or meet-me room operator that represented to incoming clients that certain carriers were "there" and it turned out that they were not then you have some explaining to do.